Federal Employees Coordinating Committee

STATEMENT OF

G. JERRY SHAW

CHAIRMAN

FEDERAL EMPLOYEES COORDINATING COMMITTEE

TO THE

SUBCOMMITTEE ON CIVIL SERVICE,

POST OFFICE, AND GENERAL SERVICES

OF THE

COMMITTEE ON GOVERNMENT AFFAIRS

U.S. SENATE

HEARINGS ON AN INTERIM RETIREMENT PROGRAM

FOR FEDERAL EMPLOYEES

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1100 17th St., N.W. ■ Washington, D.C. 20036 ■ Telephone: 463-8400

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to present the views of the Federal Employees Coordinating Committee and its member organizations. The FECC represents approximately a dozen federal employee organizations representing a wide range of government workers. Many of our members work in departments and agencies particularly concerned about the effects of the recently enacted Social Security Amendments. The temporary dual coverage by Social Security and existing federal retirement pension systems, mandated by the PL-98-21 will have a direct dollars and cents effect, as well as an indirect effect on our membership.

Adverse Effects of Social Security Amendments

Should Congress fail to enact legislation to eliminate the built-in disadvantages and inequities of the Social Security Amendments on federal employees, the consequences will be severe. Recruitment and retention problems, already endemic in many federal agencies, will become even more serious, as pay and benefits to new employees are affected. Simultaneously the federal government's comparative disadvantages in recruitment becomes more acute with the economic recovery. Private employers will not only be increasing their hiring, but offering higher pay and benefits.

Moreover, the effects of the Social Security Amendments are not restricted to newly hired federal employees. Difficulties in recruiting qualified new employees, and increased employee attrition have direct effects on agency workloads, efficiency and morale. The ability of federal managers to carry out their assigned responsibilities will be adversely effected as will their job satisfaction and their commitment to a civil service career.

These problems faced by existing federal employees are compounded by the knowledge that the future of the pension programs to which they themselves have contributed during their federal careers is itself in doubt. Federal employee confidence in existing federal pension and benefit programs is already at an all time low. The adoption of the Social Security Amendments only served to futher erode this confidence at a time when federal employees are already witnessing a mass exodus of their colleagues to the private sector.

Lastly, the Social Security Amendments will have direct budgetary implications. At a time when all Americans are concerned about the cost of government, greater difficulties in recruiting and retaining workers with specialized or highly technical abilities has already necessitated the payment of special pay rates to many existing federal employees, many of which I might add, are members of the FECC. The exacerbation of recruitment and retention problems due to dual coverage may require payment of higher special pay rates to greater numbers of individuals.

Legislative Objectives

These and similar effects of the Social Security Amendments suggest three distinct objectives faced by Congress in the near term.

First, and most important, a retirement system for new employees must be designed and implemented without delay. The longer this is postponed the more serious the problems will become. No temporary stopgap measure designed to alleviate current problems will satisfy this need.

Second, a solution must be found to the immediate problem caused by dual coverage that will eliminate the basic inequity that would be suffered by new employees forced to contribute to two pension systems. These new employees can expect to contribute some half a billion dollars to the Civil Service Retirement System and other systems while obtaining something less than three and a half million in benefits during the same period. To quote the recent General Accounting Office study of the problem,

> "Requiring to temporarily contribute to both systems appears to be an inequity. The dual contribution will reduce employee's take home pay if the situation is not remedied by Congress."

Third, an effort must be made to minimize the general damage to the federal government, its effectiveness, its efficient operation, and the morale of its employees. The retention and recruitment problems must be addressed head-on.

Alternatives

Several legislative alternatives have been proposed to address these last two legislative objectives: eliminating the inequity and minimizing the damage done by the Social Security Amendments. The three most widely discussed alternatives have been (1) to exclude new employees from Civil Service Retirement System coverage, either universally, or on a voluntary basis; (2) to institute some form of tax credit that would reimburse new employees for the increased financial burden of dual coverage; or (3) alternatively to develop a Social Security offset formula while providing temporary CSRS coverage without employee contributions.

None of these three alternatives, nor any other with which I am familiar, are entirely satisfactory.

The first alternative, to exclude new employees from coverage under the current federal pension program, would of course eliminate the direct financial inequity to be borne by new employees. However, this alternative also eliminates the potential personnel recruitment benefits of inclusion under such programs. Also, a simple exclusion of new employees from the current federal retirement system would further strain the financially strapped federal program. New employees who otherwise would have been able to take advantage of Civil Service Retirement System benefits would be substantially penalized. Creating a different kind of inequity.

Like the CSRS exclusion alternative, tax credit arrangements, which would reimburse new employees for their contributions to federal retirement benefit programs, would also eliminate the direct financial inequities of dual coverage. Such an alternative would also benefit the financially strapped existing federal retirement benefit programs. However, for many new employees, earning entry-level wages, the possible delay in reimbursement pointed out in the GAO report could be an important consideration in joining the federal government. Though the federal government would be alleviated of any substantial administrative burden, it would do so at the expense of new employees. These disadvantages will doubtlessly be reflected in recruitment and retention.

The last alternative, involving the Social Security offset, has the fewest disadvantages. This alternative would provide new federal employees coverage under both the Civil Service and Social Security Systems, while at the same time eliminating the direct financial impact on the employee. Moreover, this arrangement would provide comparable disability and death benefits coverage for the new employees while at the same time partially protecting the financial health of the existing federal retirement programs through agency-only contributions. Nonetheless, the Social Security offset arrangement will result in administrative burden which would be avoided under the tax credit scheme.

Obviously, none of the alternatives available is completely satisfactory, underscoring the need for Congress to address the more important problem of overhauling existing retirement benefit programs.

Of the alternatives available, however, the FECC prefers the Social Security offset approach.

Recommendations

Whichever alternative is agreed to by the Congress, the FECC feels such a plan should contain five elements:

1. New employees should be reimbursed for any direct financial penalties of dual coverage in a timely fashion.

2. The financial integrity of existing federal retirement benefit programs must be insured by Congress, and the lack of new employee contributions not become a new excuse for OPM to unleash a further publicity barrage about how the Federal retirement program is "breaking" the Government.

3. Any new retirement system for new employees must be a fair and equitable one.

4. Lastly, new employees should be completely aware of the temporary arrangements made to accommodate their entry into the U.S. government. The Office of Personnel Management should be instructed by the Congress to inform new employees both of the temporary nature of the retirement system under which they enter, and the specific benefits to which they would be entitled pending Congress's work on a new Civil Service System.

Thank you very much.